

BUDGET LETTER

SUBJECT:	2007-08 PRICE LETTER	NUMBER:	06-21
		DATE ISSUED:	August 15, 2006
		SUPERSEDES:	BL 05-22
REFERENCES:	BUDGET LETTER 06-04 GOVERNMENT CODE SECTION 13308.05		

TO: Agency Secretaries
Department Directors
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

In order to prepare a workload budget as defined in Government Code Section 13308.05, the Department of Finance (Finance) has determined that departmental budgets should include, as baseline adjustments, funding for price increases.

Government Code Section 13308.05 authorizes a baseline adjustment for price increase in the budget year only. The base that departments are to use for purposes of calculating the price increase adjustment is total operating expenses and equipment expenditures authorized in the 2006 Budget Act after removing major one-time expenditures, the amount budgeted for Statewide Cost Allocation Plan (SWCAP) recoveries, General Administrative Costs (Pro Rata), and any items that have price increases already built in--e.g., inflation factors incorporated into certain information technology projects. (A subsequent Budget Letter will be issued that addresses SWCAP and Pro Rata planning adjustments.) Departments may then apply to this base amount the U.S. state and local implicit deflator of 2.7 percent. If a department can justify that another methodology may be more appropriate in calculating its budget year price increase, it should submit a Budget Change Proposal fully documenting the need.

In order for these adjustments to be included in the Planning Estimates as baseline adjustments, departments must provide the adjustment for price increase along with any necessary back-up information to their respective Finance Budget Analyst by October 13, 2006. The back-up information must also include a split of the price increase by item of appropriation.

The price adjustment factors included in Attachment 1 are provided for departments' planning and detailed budget-building purposes only. The population projections on Attachment 2 are based on May Revision estimates; updated population data will be available in November.

The Price Letter does not cover the prices of goods and services that are included in the Department of General Services' (DGS) **2006-07 Price Book and Directory of Services**, which is available from the Office of Fiscal Services' website at <http://www.ofs.dgs.ca.gov/Price+Book/Default.htm>. Only current year rates are included on this website in keeping with the agreement between Finance and DGS, which was also ratified by the Legislature. Beginning with the 2005-06 rates, DGS service rates are now submitted for Finance review and oversight through the Governor's Budget development process each year. Final 2007-08 rates will be

updated and available on the DGS's website in July 2007, pending legislative approval. If you have any questions regarding the Price Book, please contact DGS, Office of Fiscal Services, Budget and Planning Section, 707 3rd Street, West Sacramento, Sacramento, CA 95605, or call Gary Fujii at (916) 376-5130.

/s/ Mark Hill

Mark Hill
Program Budget Manager

Attachments

PRICE LETTER STANDARDS
2007-08

PRICE ADJUSTMENT FACTOR SUMMARY
(See following text for specific instructions)

UCM Code	Line-Item Object	2006-07 ^a	2007-08 ^a
Personal Services			
103103	OASDI	6.2% on wage ceiling of \$96,300 ^b	6.2% on wage ceiling of \$100,350 ^b
103137	Medicare	1.45% no wage ceiling	1.45% no wage ceiling
103105	Health Benefits-Public Employees	CalPERS HMO rates will increase by 11.6% on January 1, 2007. Funding for these changes will be addressed in a subsequent Budget Letter.	
103107	Retirement-Public Employees	9.7%	9.7%
		This is the average increase for all plans. Budget instructions for this item will be provided in a forthcoming Budget Letter.	
Operating Expenses			
311223	Library Purchases		
	Monographs	-2.4%	1.0%
	Subscriptions	-2.3%	2.1%
	Serial Services	-2.3%	2.4%
313257	Telephone	c, d	c, d
314261	Postage	d	d
317292	In-State Travel Per Diem	d	d
324362	Electricity	d	d
324363	Natural Gas	+9.7%	+18.8%
324364	Liquid Petroleum Gas	-2.2%	-6.1%
325396	Attorney General Services		
	Attorney Services	d	d
	Paralegal Services	d	d

^a Percentage change over 2005-06, unless specified otherwise.

^b The tax base for the calendar year 2006 is \$94,200. While official wage bases for the coming years were not finalized by the Social Security Administration at the time this letter was prepared, estimated wage bases of \$98,400 and \$102,300 are used for calendar years 2007 and 2008, respectively, for planning purposes.

^c Budget at July 1, 2006 rates.

^d See following text.

UCM Code	Line-Item Object	2006-07 ^a	2007-08 ^a
Operating Expenses			
328428	Consolidated Data Center	d	d
333503	Clothing and Personal Supplies	0.8%	-0.3%
333504	Medical Care	3.9%	8.0%
333506	Foodstuffs	3.0%	7.6%
333513	Laundry ^e		
	General Linen	32¢/lb.	d
	Personal Clothing	34¢/lb.	d
	California Consumer Price Index - All Urban Consumers	3.0%	5.9%

OPERATING EXPENSES

TELEPHONE

Telephone rates for services subscribed to under provisions of the CALNET services contract are subject to change predicated on the Department of Technology Services' (DTS) continued efforts to work with the Contractor to ensure service pricing remain competitive throughout the term of the Agreement. The DTS, in cooperation with the Department of General Services (DGS), intends to award a new telecommunications service contract in December 2006 concurrent with the expiration of CNT-001 (CALNET services contract).

POSTAGE

Departments are advised that in May 2006, the United States Postal Service (USPS) filed a request (Docket Number R2006-1) with the Postal Rate Commission to raise the postal rates on the average of 8.5 percent. Under this proposal, the price of sending a First Class letter would increase from the current 39 cents to 42 cents. According to the USPS, price changes would not occur before May 2007. Current rate schedules are available at most post office branches, as well as the United States Postal Service's own website at <http://www.usps.com/>.

Current major postage rates, effective since January 8, 2006, are as follows:

First-Class letter: 1 oz.	39 cents
Postcard	24 cents
Priority Mail (1lb.):	\$4.05
Express Mail:	\$14.40

^a Percentage change over 2005-06, unless specified otherwise.

^d See following text.

^e Prices do not include transportation charges, which are based on mileage. See following text for detail.

IN-STATE TRAVEL PER DIEM

For 2006-07 and 2007-08, the reimbursement for lodging, meals and incidentals, and mileage should be budgeted as follows:

Lodging –

For each 24-hour period

- Alameda, San Francisco, San Mateo
Santa Clara

- With receipt
- Without receipt

up to \$140.00 plus tax
\$0.00

Lodging –

- Los Angeles and San Diego County

- With receipt
- Without receipt

up to \$110.00 plus tax
\$0.00

Lodging –

- All other counties

- With receipt
- Without receipt

up to \$84.00 plus tax
\$0.00

Lodging –

- Conference/Conventions

- Non-State sponsored, with prior written approval of appointing power, with receipt
- State-sponsored, with prior written approval of appointing power, with receipt

no maximum

up to \$110.00 plus tax

Meals and Incidentals

up to \$6.00 for breakfast
up to \$10.00 for lunch
up to \$18.00 for dinner
up to \$6.00 for incidentals

Mileage

\$0.445 per mile

The aforementioned amounts reflect the current reimbursement rates for excluded and represented state employees.

Departments are advised to use the above rates for budgeting purposes until the Department of Personnel Administration provides notification of any changes that result from collective bargaining. Actual rates are determined by collective bargaining agreements and may vary by bargaining unit.

HEAT, LIGHT, AND POWER

Electricity

All the major electric utilities have several rate schedules, which are based upon the customer's maximum kilowatt demand and tend to increase costs to the customer as maximum demand increases. Departments should verify that they are being billed on the correct schedule and make every reasonable effort to reduce their maximum demand. The utilities are willing and able to offer advice in this area.

Based on the California Energy Commission's electricity outlook as of July 2006, the overall electrical rates charged by major investor-owned and municipal utilities are expected to change over 2005-06 as follows:

	2006-07	2007-08
Pacific Gas & Electric Company	0.26%	-1.86%
Southern California Edison	-5.28%	-3.88%
San Diego Gas and Electric Company	2.67%	-0.64%
Los Angeles Dept. of Water & Power	2.46%	6.42%
Sacramento Municipal Utility District	2.00%	4.04%

Natural Gas

Natural gas should be budgeted for 2006-07 and 2007-08 at 9.7 percent and 18.8 percent, respectively, above 2005-06 actual expenditures.

Fuel Oil and Liquefied Petroleum Gas

Departments are advised to budget liquefied petroleum gas for 2006-07 and 2007-08 at 2.2 percent and 6.1 percent below 2005-06 actual expenditures, respectively. Departments should budget fuel oil at current market rates.

ATTORNEY GENERAL'S LEGAL SERVICES RATE

Effectively July, 2006, Departments are advised to budget Attorney Services and Paralegal Services at \$158 per hour and \$101 per hour, respectively, for 2006-07. State Departments receiving services from the Department of Justice are subject to these rates. At the time this Budget Letter was prepared, the Attorney General's legal services rates for 2007-2008 are not available; if these rates are increased, Departments will be notified of the increases in a subsequent Budget Letter.

CONSOLIDATED DATA CENTER SERVICES

Effective July 9, 2005, the Stephen P. Teale Data (TDC), Health and Human Services Agency Data Center (HHSDC), and the Department of General Services, Office of Network Services were consolidated into the Department of Technology Services. The three sites are referred to as the Gold Camp, Cannery and Sequoia-Pacific campuses respectively. The new website for the Department of Technology Services (DTS) is www.dts.ca.gov. The rates previously charged by each campus continue to be used for their respective customers except for the changes communicated in the July 25, 2005, and July 1, 2006, memoranda to all DTS customers. Because departments typically have very different usage patterns, they are advised to consult the Department of Technology Services billing rates schedule to estimate data processing costs and develop budgets for 2006-07 and 2007-08 accordingly. The DTS billing rates schedule can be found on the DTS website noted above. Rates charged for various services are continued to be reviewed and will likely

change at least once during 2006-07. While some rates may increase, overall costs to many departments are expected to be reduced.

For departments that use CALSTARS running on DTS' data processing systems, suggested amounts for their 2006-07 interagency agreements have been developed and are available to those departments. As a whole, CALSTARS departments can expect a 6.4 percent increase in CALSTARS interagency agreement amounts in 2006-07, although changes in interagency agreement amounts for individual departments may vary. For additional information, departments may contact Ms. Jeanette Criswell of the DTS at (916) 464-4177 (or e-mail at: <mailto:Jeanette.Criswell@dts.ca.gov> Jeanette.Criswell@dts.ca.gov).

CLOTHING

Clothing and personal supplies should be budgeted for 2006-07 and 2007-08 at 0.8 percent above and 0.3 percent below 2005-06 actual expenditures, respectively.

MEDICAL CARE SUPPLIES

Departments should budget contract items at current prices. Budget the remaining items for 2006-07 and 2007-08 at 3.9 percent and 8.0 percent, respectively, above 2005-06 actual expenditures.

FOODSTUFFS (FEEDING)

Budget feeding costs for 2006-07 and 2007-08 at 3.0 percent and 7.6 percent, respectively, above 2005-06 actual expenditures.

LAUNDRY

Laundry prices for departments served by state correctional institutions should be budgeted as follows:

Service	2006-07
General Linen	32¢/lb.
Personal Clothing	34¢/lb.

Based on projected cost of providing laundry services for 2006-07, laundry prices are estimated to increase. However, at the time this letter was prepared, the Prison Industry Authority had not determined the estimated increases for 2007-08.

These prices do not include mileage-based transportation costs, which are as follows:

Round Trip Mileage	Charge Per Trip
1-25	\$100.00
6-50	190.00
51-75	265.00
76-100	325.00
101-125	375.00
126-150	415.00
151-175	485.00
176-200	550.00
201-225	610.00
226-250	665.00
251-300	800.00
301-350	930.00

OVERALL CONSUMER PRICE INFLATION

The Economic Research Unit of Finance forecasts the California Consumer Price Index for all urban consumers (CPI-U) and several other price indexes in May, September and December. The most current (April 2006) California CPI-U forecast predicts that overall consumer prices will rise by 3.0 percent and 5.9 percent in 2006-07 and 2007-08, respectively, over 2005-06. However, departments are advised that while the CPI-U is believed to represent overall consumer prices, this index may be inappropriate for use in predicting the inflation trends for certain types of purchases. Furthermore, it is suggested that departments wishing to use CPIs to help forecast their expenditures contact the Economic Research Unit at (916) 322-2263 for the most recent available forecast.

POPULATION

California's total population on July 1, 2006 is projected at 37,403,000—an increase of 447,000 over the number residing in the state on the same date last year. Civilian population on July 1, 2006, the essential figure for most budget computations, is 37,246,000. This represents a growth of 447,000 over the past 12 months. Current projections for mid-2007 place the total population at 37,858,000—an increase of approximately 1.2 percent for total population from the preceding July 1. The total population as of July 1, 2008 is expected to be 38,318,000, of which 38,160,000 would be civilians. These data are summarized in Table 1.

Table 1. ESTIMATED POPULATION OF CALIFORNIA, 2004-2008
(in thousands)

<u>July 1</u>	<u>Total Population</u>	<u>Civilian Population</u>	<u>One-year change</u>	
			<u>Total</u>	<u>Civilian</u>
2004	36,500	36,340	---	---
2005	36,956	36,799	456	459
2006	37,403	37,246	447	447
2007	37,858	37,700	455	454
2008	38,318	38,160	460	460

Table 2 shows the civilian population for the years 2004-2008 distributed by five-year age groups. This distribution is based upon the results of the April 1, 2000, decennial census, Department of Finance estimates, and the most recent Department of Finance projection series.

Table 2. ESTIMATES OF CALIFORNIA'S CIVILIAN POPULATION BY AGE
(in thousands)

<u>Age in Years</u>	<u>7/1/2004</u>	<u>7/1/2005</u>	<u>7/1/2006</u>	<u>7/1/2007</u>	<u>7/1/2008</u>
0-4	2,602	2,666	2,696	2,734	2,766
5-9	2,561	2,520	2,520	2,536	2,579
10-14	2,839	2,815	2,774	2,725	2,672
15-19	2,663	2,740	2,815	2,874	2,905
20-24	2,548	2,561	2,576	2,600	2,642
25-29	2,546	2,558	2,588	2,619	2,653
30-34	2,781	2,728	2,684	2,664	2,656
35-39	2,817	2,848	2,887	2,904	2,900
40-44	2,885	2,894	2,885	2,870	2,861
45-49	2,649	2,716	2,772	2,817	2,854
50-54	2,287	2,356	2,430	2,506	2,576
55-59	1,898	2,010	2,096	2,135	2,186
60-64	1,393	1,455	1,530	1,647	1,744
65+	3,871	3,932	3,993	4,069	4,166
Total	36,340	36,799	37,246	37,700	38,160